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# DEVELOPMENTS IN MARKETING SPREADS FOR AGRICULTURAL PRODUCTS IN 1961

Marketing Economics Division  
Economic Research Service  
U. S. Department of Agriculture

(Reprinted from Hearings Before the Subcommittee  
of the Committee on Appropriations, United States  
Senate, Eighty-Seventh Congress, Second Session)



Growth Through Agricultural Progress

## PREFACE

The Congress in 1955 directed the Department of Agriculture to make special studies of spreads between prices paid by consumers and those received by farmers. The reports published in 1961 and early 1962 are summarized in this report, which was prepared for the Subcommittees of the Committees on Appropriations of the House of Representatives and of the United States Senate.

Five similar reports summarize the results of earlier studies: Special Margins and Costs Studies, Marketing Research Report No. 187, April 1957; Special Studies of Marketing Costs and Practices, Marketing Research Report No. 240, October 1958; Developments in Marketing Spreads for Agricultural Products in 1958, AMS-316, June 1959; Developments in Marketing Spreads for Agricultural Products in 1959, AMS-374, May 1960; Developments in Marketing Spreads for Agricultural Products in 1960, ERS-14 (1961), July 1961.

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Washington, D. C.

October 1962

## HIGHLIGHTS

1. The spread between retail and farm prices of food products reached a new high in 1961 (table 1, column 3). The increase of 1.6 percent from 1960 was greater than in the 2 preceding years but below the average annual increase of 2.8 percent since 1950.
2. The farmer's share of the retail food dollar averaged 38 cents in 1961, the same as in 1959 (fig. 1). This was the lowest annual average since the early 1930's.
3. The increase in marketing spreads in 1961 was again reflected in slightly higher food prices at retail for the year as a whole. However, in the last 10 years consumer prices for food have risen substantially less than most other goods and services bought by consumers. Food prices have risen less than other things primarily because prices received by farmers for food products have declined (fig. 2).
4. Hourly earnings of food marketing employees, the major cost item in marketing food, increased by 4 percent from 1960 to 1961. But gains in labor productivity in processing and distributing food kept unit labor costs from rising appreciably (fig. 3).
5. Total profits of the major food processing and distributing firms continue to increase, primarily because of greater volume. However, profits as a percentage of sales have trended upward moderately since the early 1950's (fig. 4).

Table 1.--The farm food market basket: Retail cost, farm value, farm-retail spread, and farmer's share of retail cost, 1947-61 1/

Year and month	Retail cost <u>2/</u>	Farm value <u>3/</u>	Farm-retail spread	Farmer's share
	Dollars	Dollars	Dollars	Percent
1947-49 average.....	940	466	474	50
1950.....	920	432	488	47
1951.....	1,024	497	527	49
1952.....	1,034	482	552	47
1953.....	1,003	445	558	44
1954.....	986	421	565	43
1955.....	969	395	574	41
1956.....	972	390	582	40
1957.....	1,007	401	606	40
1958.....	1,064	430	634	40
1959.....	1,040	398	642	38
1960.....	1,053	407	646	39
1961 <u>4/</u> .....	1,060	404	656	38
<u>1960</u>				
January.....	1,030	387	643	38
February.....	1,028	392	636	38
March.....	1,032	410	622	40
April.....	1,053	415	638	39
May.....	1,055	410	645	39
June.....	1,062	405	657	38
July.....	1,064	405	659	38
August.....	1,056	400	656	38
September.....	1,055	402	653	38
October.....	1,062	411	651	39
November.....	1,065	420	645	39
December.....	1,068	421	647	39
<u>1961</u>				
January.....	1,068	418	650	39
February.....	1,070	424	646	40
March.....	1,068	414	654	39
April.....	1,069	408	661	38
May.....	1,060	397	663	37
June.....	1,059	392	667	37
July.....	1,066	396	670	37
August.....	1,060	402	658	38
September.....	1,058	402	656	38
October.....	1,054	396	658	38
November.....	1,045	395	650	38
December.....	1,047	405	642	39

1/ The farmer's share and index numbers of the retail cost, farm value, and farm-retail spread for the years 1913-59 are published in Supplement for 1956-60 to Farm-Retail Spreads for Food Products, U. S. Dept. Agr., Misc. Pub. 741, 1961.

2/ Retail cost of average quantities purchased per family in 1952 by urban wage-earner and clerical worker families, calculated from retail prices collected by the Bur. Labor Statistics.

3/ Payment to farmers for equivalent quantities of farm produce minus imputed value of byproducts obtained in processing.

4/ Preliminary estimates.

# FARMER'S SHARE OF THE CONSUMER'S FOOD DOLLAR

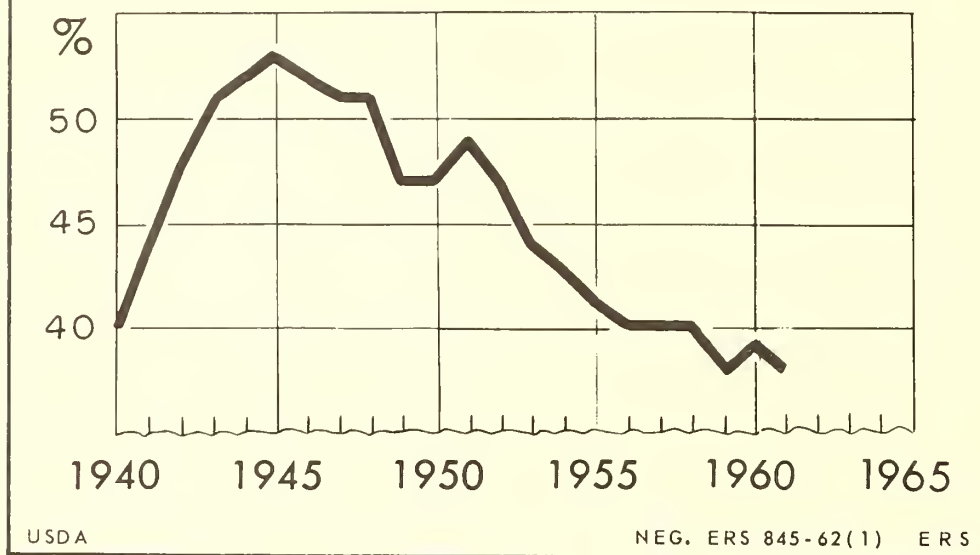


Figure 1

# FOOD PRICES AND CONSUMER PRICE INDEX

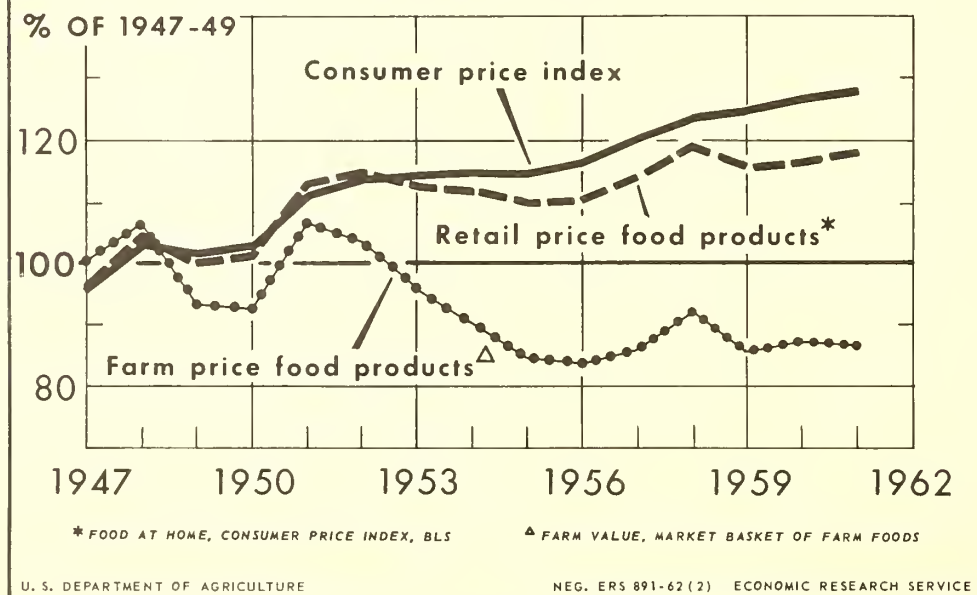


Figure 2



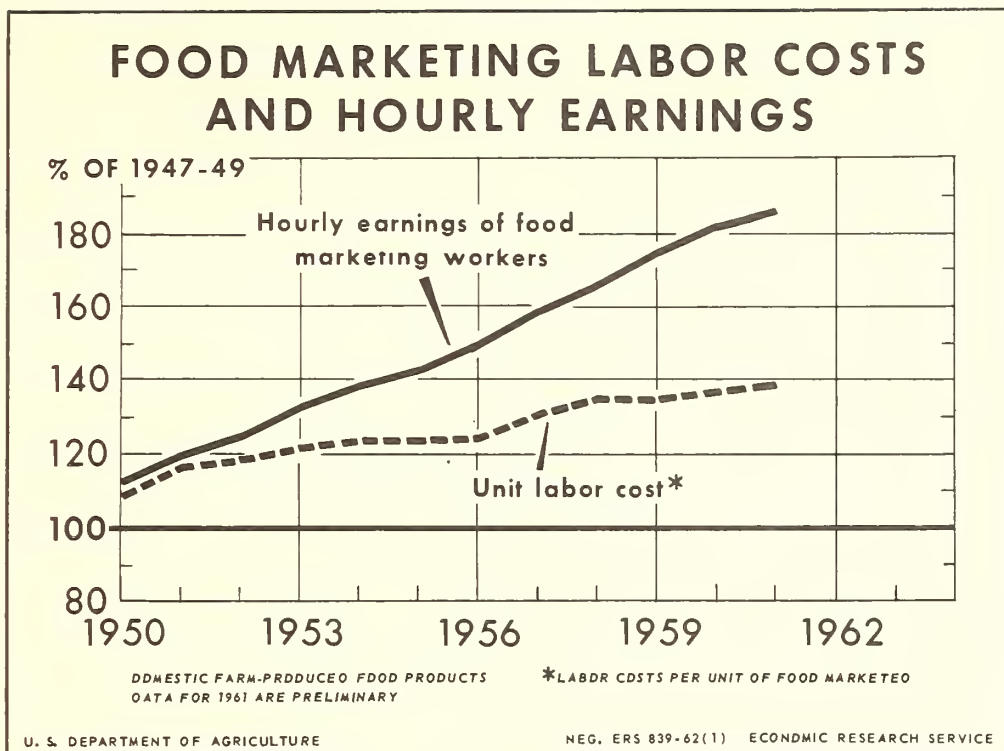


Figure 3

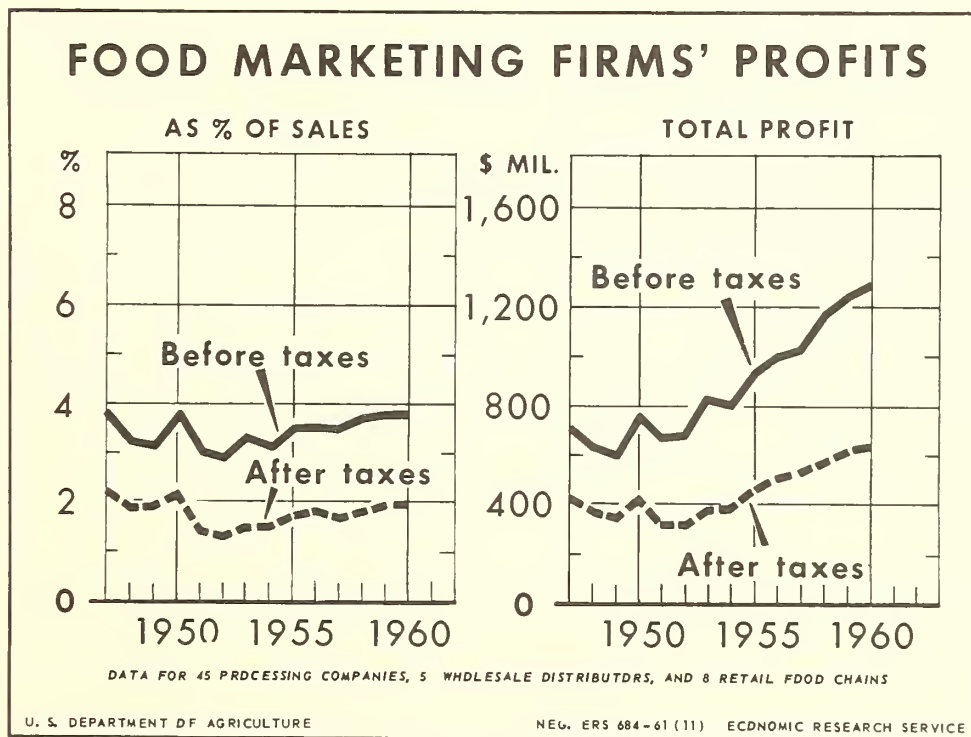


Figure 4



## DEVELOPMENTS IN MARKETING SPREADS FOR

### AGRICULTURAL PRODUCTS IN 1961

#### TELLING THE STORY OF FOOD PRICES TO THE CONSUMER

The Department devoted much effort to reporting the story of relatively low food costs to the public and to explaining the reasons. Popular treatment was given to the fact that prices paid by consumers at retail stores have been comparatively stable in recent years. During the last 5 years, the retail cost of a market basket of farm foods has fluctuated between a low of \$1,007 in 1957 and a high of \$1,064 in 1958. <sup>1/</sup> The farm value of these foods varied from \$430 in 1958 to \$398 in 1959 (table 1).

Food prices have risen less than prices for other goods and services purchased by consumers since 1947-49. Prices for food purchased to serve at home increased by less than 20 percent. During the same period, prices for housing increased more than a third, transportation nearly one-half, and medical care nearly 60 percent (fig. 5).

It required only 516 hours of work by a typical factory worker to buy the market basket of farm foods in 1961 compared with 724 hours in 1947-49 (fig. 6). The decrease in the real cost of food to the consumer occurred because disposable income per person rose more than food prices. Consumers spent less than one-fifth of their income for farm foods in 1960 compared to one-fourth in 1947-49.

The publication Food Costs presents this information in graphic form with brief explanations. Since it was printed in April 1961, 4,000 copies have been distributed to those who have used the material for educational purposes and for developing articles and public releases.

An illustrated booklet entitled Food Is A Bargain was prepared for a wider audience. Since May 1961, over 90,000 copies have been distributed. A better indication of the impact of these popular publications than number issued is the widespread use of the material in them by private firms and organizations. The uses include paid advertisements in metropolitan daily newspapers. These indicate communication to an audience of millions. The material in Food Is A Bargain was adapted for radio and television, and released to more than 200 outlets. Slides and film strips developed from the material have been purchased by over 50 private groups and 30 copies available for loan have been used extensively by consumer groups during the Centennial year celebrations. Late in the year a single sheet illustrating the same theme was prepared. So far more than 1,500,000 copies have been distributed directly to consumers through the cooperation of retail food stores.

#### SPECIAL PRICE SPREAD STUDIES

During the last year, special studies of factors influencing trends in farm-retail spreads included intensive studies of productivity in food processing industries,

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<sup>1/</sup> The market basket contains the average quantities of farm-produced food products purchased per family in 1952 for consumption at home by wage-earner and clerical-worker families. It does not include imported foods and nonfarm foods.

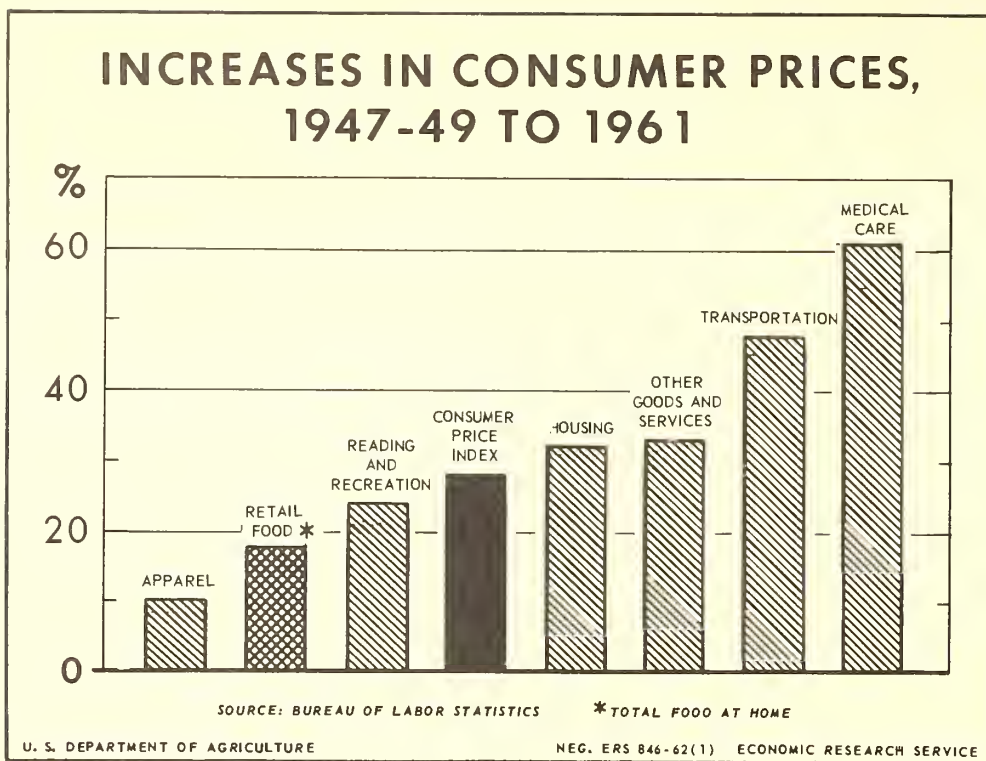


Figure 5

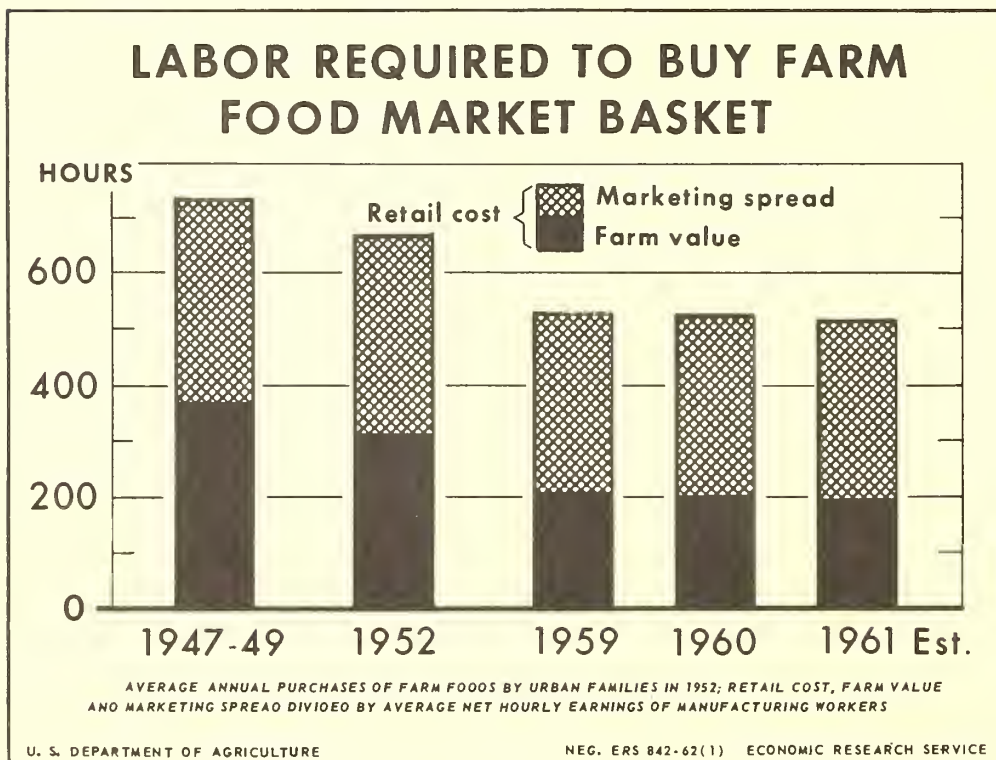


Figure 6



the impact of convenience foods and other marketing services on marketing costs, and total returns to capital and management of food marketing firms. A study was initiated on the increased retailing of food through discount houses. Margins and costs studies were continued for all major food products, cotton, and tobacco, with emphasis on the influence of retail merchandising practices such as price specials for meats, poultry, and other items.

Some of the research findings from these studies are given in the following pages of this report. A listing of research reports on price spreads and of articles, speeches, and visual presentations is given on pp. 22-24.

### Productivity and Unit Costs in Food Processing

Within recent years, charges for processing domestic farm foods have accounted for about a third of total marketing costs. Consequently, developments in productivity in food manufacturing and their effect on unit processing charges are important in explaining changes in marketing costs and in farm-retail price spreads.

Production per man-hour by all employees in factories that process farm food products rose about 3.5 percent in 1961, somewhat faster than the postwar average annual rate. Hourly earnings of employees in these factories rose at about the same rate, and as a result unit labor cost in 1961 was about the same as in 1960. The increase in output per man-hour reflects an increase in production coupled with a slight decline in number of man-hours employed.

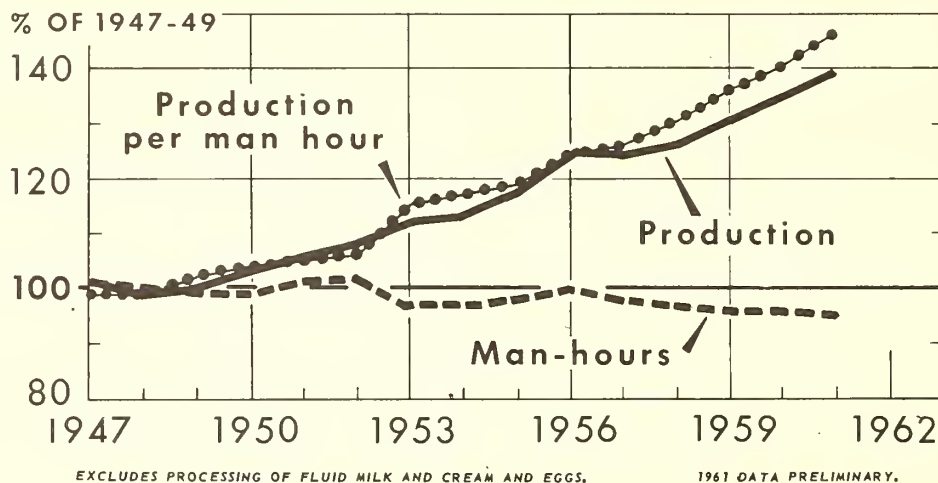
During the postwar period, 1947 to 1961, output per man-hour in food processing plants grew at an average rate of 2.9 percent per year. This growth in output per man-hour was faster than the rise in output. About 50 percent more output was produced in 1961 than in 1947 with about 5 percent fewer man-hours (fig. 7). The 4-year period beginning in 1958 was especially marked by an accelerated rate of growth in output per man-hour and a downtrend in number of man-hours. This very substantial improvement resulted in unit labor costs remaining virtually constant during the period 1958-61.

Factors affecting output per man-hour.--Technological improvement in capital goods probably was the most important single factor contributing to the growth in output per man-hour. Food manufacturing firms adopted technological innovations in materials handling, continuous processes, electronic temperature and humidity controls, packaging, grading, and other developments. Frozen foods, blended and prepared flour mixes, and other new products were developed in which output per man-hour either is higher, or is rising faster than the average for all processed foods.

Increases in the quality of labor inputs through education, training, experience, and other kinds of investment in human capital added to the growth in output per man-hour. During the postwar period, the number of engineers, technicians, and other highly trained employees who worked in food processing plants increased significantly.

Economies of scale resulting from an expansion of the market for processed farm foods also made an important contribution to the postwar growth in output per man-hour.

## PRODUCTION, MAN-HOURS, AND PRODUCTION PER MAN-HOUR



U. S. DEPARTMENT OF AGRICULTURE

NEG. ERS 708-62 (1) ECONOMIC RESEARCH SERVICE

Figure 7

Postwar trends among different food industries.--Trends in output per man-hour varied widely among major food industry groups. Factories processing fruits and vegetables showed the largest rate of growth. Output per man-hour in processing sugar, manufactured dairy products, and grain-mill products also rose faster than the average for all farm foods, but confectionery products, meat products, and bakery products rose at a slower rate than the average for all processed foods.

Unit labor cost.--Hourly earnings of employees in factories processing farm food products were about 85 percent higher in 1961 than in 1947-49; but because of the rise in output per man-hour, unit labor costs were only 28 percent above the base period. The rise in hourly earnings was not confined to food manufactures; it was part of a postwar increase in all manufactures. The increase in hourly earnings reflects inflationary price and wage rises in the economy as a whole, a shift to more technical, higher paid jobs, and the need for food manufacturers to pay competitive wages in order to attract and hold employees.

Nonlabor charges (profits, taxes, depreciation, advertising, and other operating expenses) per unit of output in factory processing rose faster than unit labor costs from 1947-49 to 1958, the latest year for which these data are available. Total unit processing charges, the sum of unit labor and nonlabor charges, were about a third larger in 1958 than in 1947-49, compared with an increase of about a fourth in unit labor costs in the same period. The larger increase in nonlabor charges reflects the substitution of capital and other production inputs for labor; and it also reflects larger outlays for advertising and similar operating expenses.

## Profits in Food Marketing

Net profits after taxes in food marketing are (1) close to the average for American industrial companies when expressed as a percentage of net worth, and (2) among the lowest -- about 2 percent -- when expressed as a percentage of sales, because of the rapid turnover of sales in relation to invested capital for food companies.

The reported net earnings of leading food chains are higher in relation to net worth than those reported for leading processors and wholesalers: 12.4 percent in 1960 compared to 10.2 and 10.1 percent, respectively. Most of this differential is explained by food chains making widespread use of long-term leases to finance new buildings.

Although profit ratios of leading food marketing firms were about the same in 1960 as in 1947-49, profits as a percentage of sales have moved upward in most years since 1952. Total profits since 1952 have risen much faster than profit rates because of the large growth in sales of these firms. Some of the growth in these firms was made through mergers and acquisitions of other firms.

An examination of profit trends among different size groups of food marketing firms revealed some sharp divergencies. Profits of large food processors and retailers have increased more than those for medium and small firms in almost every year since 1946. This suggests that survival of medium and small firms in food processing and retailing is becoming increasingly difficult.

Corporate net profits after Federal income taxes are less than 2 percent of consumer expenditures for food, but they are equal to about 5 percent of farmers' gross returns from sales of food products.

Net profits have declined in relative importance as an element in the cost of marketing food in the postwar years because other costs have risen faster than profits. In 1947-49, net profits were 3.5 percent of food marketing costs compared with 2.5 percent in 1960. Profits (before taxes) per unit of food marketed were up 16 percent, but profits after taxes dropped 9 percent from 1947-49 to 1960.

Total returns to capital and management.--Profits alone are not adequate indicators of changes in total returns to capital and management. Total returns include interest, rent, depreciation, compensation of corporate officers, dividends and retained earnings. Data available from the Internal Revenue Service through 1958 made possible this more complete analysis.

For food marketing firms the amount available for payments to management and owners and for investment by corporations was a slightly larger proportion of total sales in 1958, 3.7 percent, than in 1954, 3.3 percent, but about equal to the average of 3.6 percent in 1947-49 (table 2).

From 1947-49 to 1954, payments to capital owners -- dividends, rents, and interest -- increased at a higher rate than sales, while corporate retentions for investment in plant and equipment and working capital -- retained earnings and depreciation charges -- rose at a slower rate than sales. Since 1954, these trends have been reversed, chiefly because of higher depreciation charges, rents, and interest. The increase in these items reflects not only higher interest rates, asset prices, and rental rates, but also changes in the tax rules and management financing more by borrowing or leasing.

Table 2.--Returns to management and capital owners, food marketing firms, selected years

Item	1947-49		1954		1958		Change:	
	Million dollars	Percent of sales	Million dollars	Percent of sales	Million dollars	Percent of sales	1947-49 : 1954 to 1958 :	1954 to 1958 :
Sales.....	54,167	100.0	72,306	100.0	95,956	100.0	77	33
Amount available for management, capital owners, and corporate purposes.....	1,974	3.6	2,406	3.3	3,543	3.7	79	47
<u>Disposition</u>								
To capital owners:								
Dividends.....	488	.9	535	.7	655	.7	34	22
Interest.....	68	.1	115	.2	165	.2	143	43
Rent.....	159	.3	290	.4	519	.5	226	79
Subtotal.....	715	1.3	940	1.3	1,339	1.4	87	42
Retained by corporations:								
Retained earnings.....	518	.9	309	.4	484	.5	-7	57
Depreciation charges.....	358	.7	650	.9	1,018	1.1	184	57
Subtotal.....	876	1.6	959	1.3	1,502	1.6	71	57
Compensation of officers..	383	.7	507	.7	702	.7	83	38

Compiled from data of Internal Revenue Service.



Compensation of officers increased slightly more rapidly than sales in the postwar period. When management expense accounts and the popularity of stock option and retirement plans are considered, the increase in total returns to corporate officers may be understated in table 2.

### Transportation

Transportation charges have decreased slightly.--Rail freight rates on agricultural products reached a peak of 136 percent of the 1947-49 level in 1957 and 1958 and have declined since. Little information is available on truck transportation rates, but these rates also appear to have decreased. Truck rates will remain under pressure from declining rail rates in 1962.

Competition in the transportation industries.--The transportation industries have passed into a very competitive era. The existence of unregulated for-hire motor transportation of unmanufactured agricultural products and the right to engage in private motor and water transportation have made further rate increases by common carriers self defeating. Total revenues and net operating margins are not increased by across-the-board percentage increases in rates.

The common carriers have been forced to look for other means than rate increases to increase their revenues and net operating margins. They are doing this by giving better service at the same price, offering new rate systems which attract more volume, and using new equipment which returns profits at lower rates per unit moved.

Some of these rate declines are due to straight rate reductions, others are due to incentive rates which couple lower rates with heavier loading. For example, the average railroad refrigerator carload went up from 18.8 tons to 20.2 tons or 7.4 percent between 1957 and 1959, and revenue per car went up 6.4 percent, but rates went down 5.6 percent.

Technological changes in transportation.--When railroads were the sole supplier of transportation service it was possible to classify commodities and assign rates somewhat independently of the actual costs of any particular movement. The widespread development of truck and barge transportation as competing modes is forcing a reappraisal of rate making criteria.

During the past year, the courts have sustained railroad piggyback rates which are quoted on a per trailer basis and largely ignore the character of the lading. A proposal by one railroad system to publish much lower grain rates in special covered hopper cars without the extensive transit, routing, and privileges other than line-haul transportation usually accorded grain shipments also follows the pattern of rail rate reappraisal.

All modes of transportation are striving to increase real productivity. Railroads are building larger cars, establishing incentive rates for heavy loading, and attempting to take advantage of their low line-haul costs and minimize their high terminal costs with piggyback. Barge operators are using larger, more powerful towboats.

Truck operators are taking advantage of liberalized State restrictions on length and weight of vehicles. This opportunity to increase the size of loads undoubtedly has been a major factor in the apparent stability of truck rates on exempt agricultural commodities in the past decade.

The competition for freight volume and the rapid introduction of new technology promise to reduce the costs of transportation relative to other marketing costs in the immediate future even though there could be some increase in absolute costs if there is inflation of the general price level.

### The Cost of Added Marketing Services

Some observers have attributed much of the rise in marketing costs to added services. They cite, in particular, shifts to new processed and prepared foods (often called "convenience" foods), smaller packages, increased variety of foods, and customer services at retail stores like checkcashing and air conditioning.

Estimates of total marketing services indicate that changes in marketing services since 1950 have only slightly increased marketing costs. Shifts in services, however, alter the comparative advantage of farmer and marketing firms in different regions and change the distribution of the price spread for some commodities. An example of an increased service is the added processing of convenience foods.

Convenience foods.--Homemakers are now buying more "built-in maid services" with foods bought for use at home. Consumers spend about \$10 billion a year, about 15 percent of their food expenditures, for convenience foods -- the processed and prepared foods which are also available in unprocessed or fresh forms.

We studied the retail store prices of 280 of these products in 4 large metropolitan areas for 12 months to measure their relative cost. Some convenience foods were found to be more expensive as meal ingredients than their fresh or unprocessed counterparts, but others cost less. On the average, the substitution of convenience foods tended to lower slightly the cost of a market basket of foods. The net effect of increased use of convenience foods on consumer food costs at present is small.

Fresh and processed lemons -- a case study.--A case study of marketing lemons and lemon products in stores of 4 grocery chains in Washington, D. C., from July 1959 to June 1960 shows how a shift from fresh to processed form changed growers' returns and marketing margins for one product.

Marketing margins ranged from \$5.93 for a 39.5-pound carton of fresh lemons to \$3.57 for an equivalent quantity of canned or bottled lemon juice (table 3). The processor's margin was the largest component of the marketing margin for the processed products. The retail margin was the largest component of the marketing margin for fresh lemons.

Transportation charges were considerably lower for single-strength lemon juice than for either frozen lemonade or fresh lemons. Transportation cost only 15 cents for lemon juice compared to 68 cents for lemonade concentrate and 91 cents for a carton of fresh lemons.

The small transportation charge for lemon juice was possible because processors in California converted fresh lemon juice into a 6:1 concentrate before shipping. It was reconstituted in the East to single-strength juice and put into consumer-sized containers. The freight rate for the concentrate equivalent to the juice from a carton of fresh lemons is only 5 cents. The charge for transporting the reconstituted juice from plants in the East to Washington averaged about 10 cents.

Table 3.--Retail price, marketing margin, and growers' returns for selected lots of fresh lemons and lemon products sold in 4 chain stores, Washington, D. C., July 1959 - June 1960 1/

Price or margin	Fresh lemons		Lemon juice <u>2/</u>		Lemonade <u>3/</u>	
	Dollars	Percent	Dollars	Percent	Dollars	Percent
		<u>4/</u>		<u>4/</u>		<u>4/</u>
Retail price.....	7.38	100.0	3.99	100.0	6.03	100.0
Chain margin..... <u>5/</u>	3.43	46.5	1.01	25.3	1.84	30.5
Transportation....	.91	12.3	.15	3.8	.68	11.3
Packer-processor..	1.59	21.5	2.31	57.9	2.96	49.1
Grower's return..	1.45	19.7	.52	13.0	.55	9.1

1/ Equivalent to the amount of lemon juice in one carton fresh lemons -- 39.5 pounds.

2/ Canned or bottled single-strength lemon juice.

3/ Frozen lemonade concentrate.

4/ Percentage of retail price.

5/ Chain margin also includes average wholesale margin for some lots.

The grower's return was greater for lemons marketed fresh than for those going into processed products. The return to growers averaged about 20 percent of the consumer's dollar for fresh lemons, while the returns for equivalent quantities of lemons in processed products averaged 13 percent for single-strength lemon juice and only 9 percent for frozen lemonade concentrate. However, producers were not necessarily harmed by these differentials. Processing outlets may be the most advantageous for certain grades and sizes of lemons, and development of processed outlets expands the total market for lemons. Likewise, the pooling of returns from fresh and processed outlets tends to equalize producers' returns from various markets.

#### Retail Store Services and Costs

Advertising, promotion, number and variety of items stocked, price specials and nonprice offers have significant effects on the spread between farm and retail food prices, and particularly on the spreads for individual commodities.

The average number of items handled per supermarket doubled between 1946 and 1960. Advertising expenditures increased about 400 percent during the same period. Part of this increase may be attributed to a shift in manufacturers' and distributors' advertising programs in which these firms pay the retailer's advertising cost for their product. The remaining increase in retailer advertising expenditures can be associated with two factors. First, the increase in selfservice retailing has necessitated substitution of advertising and other sales promotional techniques for individual salesmen. Second, the rapid expansion in numbers of large supermarkets has intensified competition among firms for consumers' patronage.

The majority of supermarkets have added the cost of trading stamps and other premium programs. It is estimated that about 78 percent of supermarkets now issue trading stamps. The cost of trading stamps to the supermarkets is nearly



2 percent of sales. For customers who save the trading stamps, the cost may be largely recouped in merchandise obtained when stamps are redeemed.

Retail margins for supermarkets increased from an estimated 17 percent of sales in 1947-49 to about 21 percent of sales in 1960. Most of this increase has occurred in the last few years.

Food retailing by discount houses.--The discount house is beginning to invade the food field in competition with the supermarket through low-cost food merchandising. Higher retail margins apparently provided an incentive for discount stores to offer lower prices and a lower level of store services. Trade estimates indicate that food sold by discounters currently accounts for about 4 percent of total retail sales.

Some discount houses handle the food departments as a concession, others as a component part of the business. Some of the major food chains are operating concessions in existing general merchandise discount houses. Others have enlarged their nonfood departments in selected stores.

There is little information available as to how efficiently food departments of discount houses operate. However, several factors indicate that they could have lower operating costs than conventional supermarkets.

1. Many discounters operate in low-overhead buildings and offer a minimum of services.
2. Cost per transaction is reduced because consumer purchases in discount houses tend to be larger.
3. Low-cost shelf stocking such as tray-pack or cut-case methods are more acceptable to discounters than to conventional supermarket operators.
4. The rental cost for the discount supermarket may be less because costs are shared with other occupants of the building.
5. Slow-moving, high-markup nonfood items are not handled, thus, overhead costs incurred by stocking these items are avoided.
6. Advertising cost may be less for "closed-door" discount houses because ads can be mailed directly to members eliminating or reducing costly radio or newspaper advertising. Also, advertising costs can be shared with other departments in the discount center. This apparent cost advantage does not usually apply to food departments in "open-door" discount centers as they follow about the same advertising procedure as conventional supermarkets.

The ultimate growth of food discounting is not known at this time, but it appears likely it will continue to attract consumers who are willing to sacrifice services for low prices. As a result, price competition in the retail food field may become greater. This will force food retailers to either increase efficiency or attempt to reduce prices they pay to growers and processors. Discount houses may cause a decrease in the construction of new conventional supermarkets. Since discount houses may attract customers from a larger trading area than conventional supermarkets, they may be able to profitably locate in lower density areas. Additional research is underway to determine the effects of retailing food through discount houses on marketing costs, price spreads, and growers' returns.

## Marketing Spreads for Bread Increase in 1961

In 1961 the United States average retail price of a 1-pound loaf of white bread was at an alltime high of 20.9 cents -- 0.6 cent higher than in 1960. The retail price in 1961 was 55 percent higher than the 1947-49 average. Each year during the period 1947-61 consumers paid more for bread than in the preceding year.

The increase of 3.0 percent from 1960 to 1961 was smaller than the average annual increase of 3.8 percent for the 1947-61 period.

The spread between the retail price and the farm value of all ingredients used in producing a 1-pound loaf of white bread increased from 17.5 cents in 1960 to 18.0 cents in 1961 (fig. 8). The farm-retail spread in 1961 was about 76 percent larger than during 1947-49.

Baker-wholesale spread.--The baker-wholesaler's spread accounted for most of the increase in the spread and in bread prices over the past decade. The annual average spread increased 0.1 cent above the 1960 figure, to 11.7 cents for a 1-pound loaf.

Increases in the baker-wholesale spread and in costs of ingredients to the baker were accompanied by a rise of 0.2 cent in the wholesale price of white bread in 1961.

The wholesale price of a 1-pound loaf of white bread increased from 11.1 cents in 1947-49 to 17.1 cents in 1961. At the same time the cost of all ingredients to the baker increased from 5.1 cents to 5.4 cents. The baker-wholesale share of the retail price increased from 44 percent in 1947-49 to 56 percent in 1961.

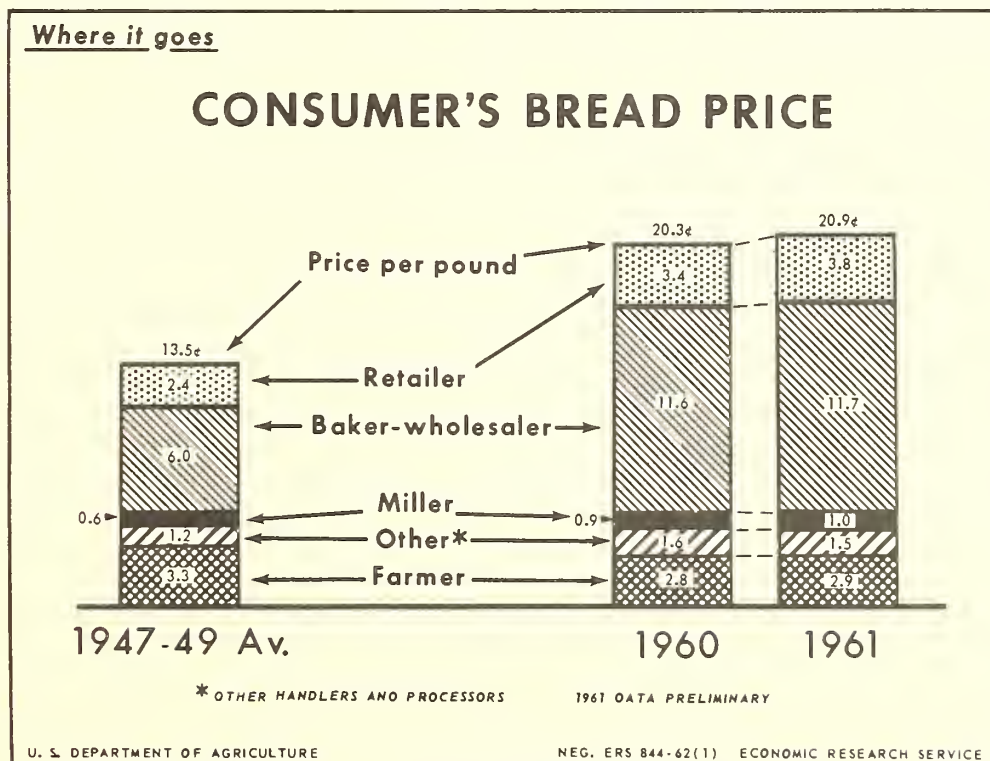


Figure 8

Some factors influencing baker-wholesale spreads.--Labor costs including fringe benefits currently represent about 51 percent of the baker-wholesaler's spread. Packaging and wrapping materials account for about 12 percent; delivery expenses other than wages and salaries, 9 percent; stale returns, advertising, and promotion expenses, about 8 percent; depreciation, about 5 percent; profits, 3 percent; and other costs, 12 percent.

Wages and salaries, fringe benefits to employees, social security taxes, bakery products bought for resale, advertising and promotion expenses, and depreciation allowances increased proportionately more than total costs. Compensation of officers, packaging and wrapping, all taxes other than social security taxes, and unspecified items rose less. Delivery expenses other than labor increased about in proportion to the increase in total cost.

Preliminary findings of a study of the baking industry indicate appreciable cost savings can be made through greater utilization of plant facilities and application of methods of scheduling deliveries and of handling and transporting bread. Possibilities of increasing the efficiency of baking and distributing bread by freezing and other new technology are being evaluated.

Retail spread increases.--In 1961 the retail spread set an alltime high, averaging 3.8 cents a 1-pound loaf of bread, 0.4 cent higher than in 1960. It accounted for most of the rise in the retail price in 1961.

During the period between 1947-49 and 1961, the retail spread climbed about 1.4 cents. Fluctuations in the annual average retail spread resulted generally from retail price increases lagging behind wholesale price increases.

Flour mill spreads.--The flour mill spread increased gradually from 1947-49 to 1961, but it is a relatively small part of the total farm-retail spread. In 1961, this spread averaged 1.0 cent, an increase of 0.1 cent above 1960, and an increase of 0.4 cent over 1947-49.

The price of flour has varied closely with the cost of wheat to the miller. However, because of increased storage and transportation costs, the spread between the farm value of wheat and the cost of wheat to the miller has widened.

#### Farm and Retail Prices of Frying Chickens Reach New Lows

The annual average farm value of frying chickens dropped 16 percent from 1960 to 1961, one of the largest percentage decreases in the last 10 years. The sharp drop in the farm value from 1960 to 1961 was accompanied by a decrease of 4.2 cents in the retail price, slightly more than the decrease in the farm value. During 1961, farm prices were lowest in September; in some areas farmers received less than 11 cents per pound for their live birds. At the end of the year, farm prices strengthened considerably, but were still somewhat below prices a year earlier.

Production of broilers was about 10 percent larger in 1961 than in 1960. Some firms expanded in an effort to lower costs through economies realized from increased scale of operations and to assure themselves of a share of total volume in an intensely competitive marketing situation. Some integrated organizations expanded in 1961 by acquiring additional facilities through mergers, as well as by constructing new plant facilities.



The average farm-retail spread dropped from 19.6 cents in 1960 to 19.1 cents in 1961, the lowest on record. It has declined each year except one since 1953.

Price specials.--Some of the decrease in the spread last year may have been the result of specials in retail stores when fryers were sold at a very small markup or sometimes at a loss.

The use of special pricing accompanied by promotional activity has become a frequent merchandising practice in selling broilers in both chain and independent retail supermarkets. For example, retailers often set prices for frying chickens at 29 cents a pound during special sales and 41 cents a pound at other times.

By stimulating the demand for frying chickens through advertising and by reducing price, individual firms move large volumes of the birds during sales weeks. To some extent, this may contribute to increased weekly fluctuations in demand for fryers. However, volume of sales is desirable when a perishable product must be moved quickly during times of market saturation and excess production. Also, competing retailers often do not feature special prices on the same commodity at the same time.

Farm-to-consumer spreads in 10 cities.--Studies of farm-to-consumer (farm-to-retail) price spreads for ready-to-cook frying chickens in 10 major United States cities show differences in spread among cities and permit dividing the spread into three components -- retail store, receiver-retailer, and farm-receiver spreads (fig. 9). The 10 cities included are: Boston, New York, Baltimore, Washington, D. C., Atlanta, Cleveland, Chicago, St. Louis, San Francisco, and Los Angeles. <sup>2/</sup>

Farm-to-consumer spreads for the 10 cities averaged 19.1 cents a pound in 1961. The widest was in San Francisco -- 27.1 cents a pound, while the narrowest was in Washington, D. C. -- 15.9 cents. The biggest change in farm-to-consumer spreads among the 10 cities from 1960 to 1961 occurred in San Francisco, where these spreads widened by 1.5 cents. Widening retail store spreads accounted for most of the increase in farm-to-consumer spreads in San Francisco.

Retail store spreads.--Retail store spreads for frying chickens in the 10 cities averaged 9.9 cents a pound in 1961 -- an increase of only 0.1 cent from 1960. Among the 10 cities, these spreads ranged from 14.6 cents in Boston and San Francisco to 7.4 cents in Washington, D. C. The biggest change in retail store spread among the 10 cities from 1960 to 1961 occurred in Boston where it widened 2 cents a pound. In Los Angeles, however, retail store spreads narrowed to 10.5 cents a pound in 1961 -- 1.4 cents less than in 1960, and 8 cents less than in 1957.

Farm-to-retailer spreads.--Farm-to-retailer spreads for the 10 cities averaged 9.2 cents a pound in 1961, and were only 0.1 cent wider than a year earlier. These spreads have widened only 0.5 cent a pound since 1959. Among the 10 cities, these spreads increased in 6 cities and decreased in 4. The two West Coast cities, Los Angeles and San Francisco, had the widest farm-to-retailer spread among the 10 cities, 14.4 and 12.1 cents a pound, respectively. The biggest change in farm-to-retailer spreads among the 10 cities from 1960 to 1961 occurred in New York and Chicago where they narrowed to 7.2 and 8.5 cents a pound, respectively; both were declines of 0.9 cent.

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<sup>2/</sup> Ten cities from 1959-61. Data were not compiled for Washington, D. C., in 1957-58.

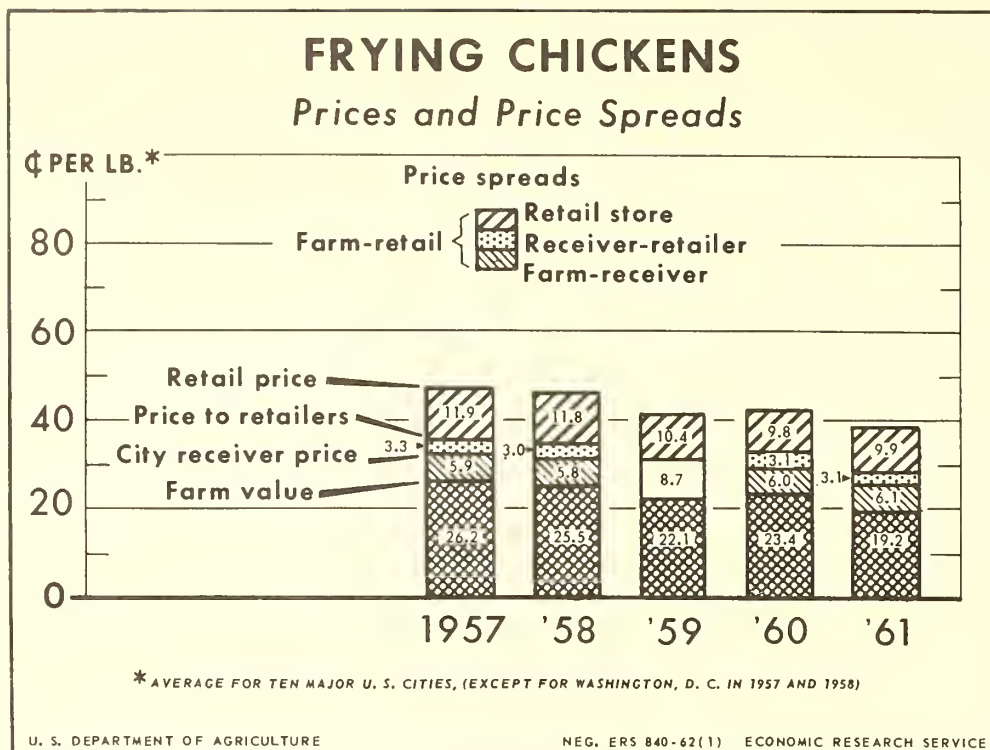


Figure 9

### Margarine

The price paid by consumers for the oil ingredient in a pound of margarine varies widely, partly because of the merchandising practices of manufacturers and distributors. A study of prices and price spreads for soybean and cottonseed oil in margarine for 1957, 1958, and 1959 shows that notable differences can be traced to types of retailing outlets and costs and practices of product differentiation.

In this study it was found that some of these variations are associated with differences in the merchandising practices of retail outlets. For example, retail buying and selling prices of chainstores average below those of the three major types of stores combined: Chains, voluntary chains, and independents (fig. 10). Both buying and selling prices and price spreads of independent retail grocery stores were the highest of the three types of outlets. Voluntary chainstore prices and spreads regularly fell between those for chain and independent stores.

In 1958, chainstore buying prices averaged 1.0 cent per pound below those for voluntary chains and 1.6 cents below independent stores. As a group, independent stores had the least favorable buying position.

Average buying prices of retail grocers are related to procurement practices. Although some retail grocery stores rely on wholesale distributors, as well as other intermediate marketing agencies for margarine supplies, the larger food retailers tend to bypass wholesalers and purchase directly from manufacturers.



# FARM VALUE OF OIL AND PRICE SPREADS PER POUND OF MARGARINE

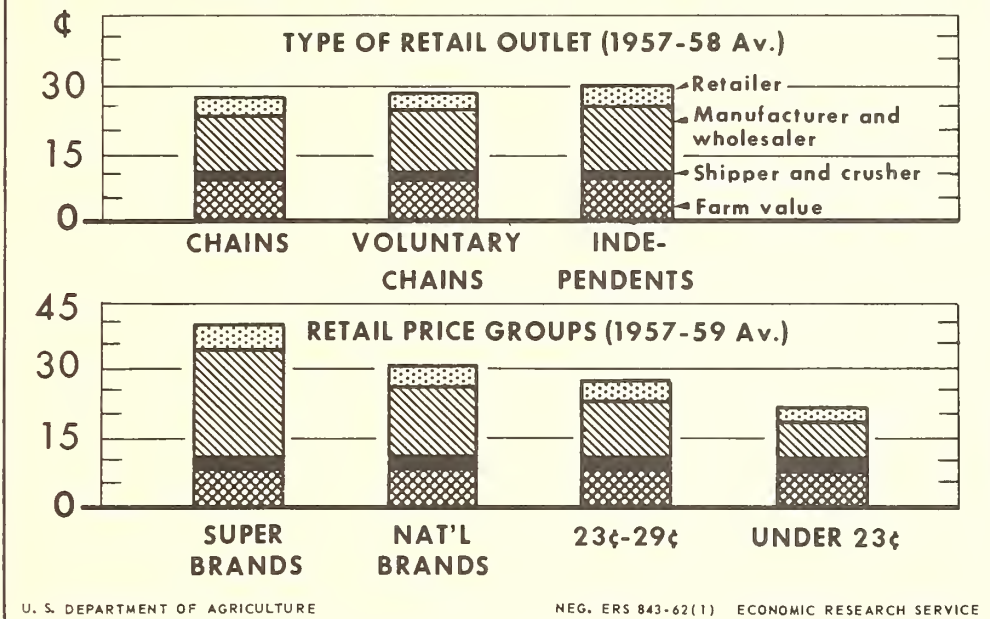


Figure 10

Many retailers, especially chainstores, regularly announce specials to attract customers. This is most frequently true of weekend promotion. At times the special prices advertised by retail stores originate with the manufacturers, in which case retailers are compensated for the reduction. Average markups of chainstores are lower than for the other two types. Independent stores reported a markup of 17 percent compared with 15 percent for chains.

Use of brand names by manufacturers in pricing margarine results in even greater variations in prices and price spreads. Margarine is packaged in 1-pound consumer units and carries a brand label when it leaves the manufacturer. Brand advertising has been and continues to be a major factor in developing and maintaining the market for margarine. Large differences in retail prices occur among the different brands of margarine. Besides their own brands, leading margarine producers package private brands for other firms.

Manufacturers' brands usually include their best selling brand and a lower and higher priced margarine. The best selling brand is likely to be well established and broadly advertised and ordinarily retails somewhat above the average price of all margarine. The lower priced brands are likely to sell at near the average level of margarine prices which was 26.5 cents a pound in 1959. The "super brands," a fairly recent development, generally contain a small percentage of butter or are made of corn oil and retail at 35.0 cents or more a pound. Addition of butter or use of corn oil increases the cost of ingredients slightly.

Retail prices of private label brands usually fall below average prices. Some manufacturers and chainstores in recent years have concentrated heavily on the development of low-priced brands. As a result, margarine prices generally vary between 15 and 39 cents per pound at retail.

Because margarine sales are distributed over many brands with a wide range in prices, brands may be broadly classified into four retail price groups to permit more meaningful comparisons. Group I includes the "super brands." Group II contains the largest selling brands. Other brands selling between 23 and 29 cents were classified as Group III and those selling under 23 cents as Group IV. Average prices and price spreads by price group are shown in figure 10.

In 1959, the average retail selling price for Group IV was 18.6 cents a pound below the Group I average. In the same year Group III prices averaged 12.0 cents less and Group II, 9.9 cents less than the Group I brands.

Despite variation in brand prices, the farm value of oil per pound of margarine varies only slightly. Uniformity of oil prices, both at the farm and market level, coupled with the wide range in margarine prices denotes considerable variation in charges made for marketing vegetable oil in margarine. For example, in 1958, price spreads between the farm and retail level by type of retail outlet averaged 18.6 cents a pound for margarine sold by chainstores compared with 21.4 cents for independent stores. The average margin for Group I brands of margarine was 32.6 cents per pound in 1959 compared with 14.0 cents for Group IV brands. The return to growers of 6.7 cents per pound of margarine is 17.0 percent of the retail price of Group I margarine and 32.3 percent of Group IV. Apparently differences in marketing practices and cost of product differentiation are sizable elements in the marketing of vegetable oils in margarine.

#### Meats: Spread Rises - Retail Prices Stable

The spread for meat products was 2 percent higher in 1961 than a year earlier. There was little change in the retail cost of meat from 1960 to 1961 because the increase in spread was offset by lower farm prices for beef and lamb.

The retail price of Choice grade beef was slightly lower in 1961. The farm-retail spread for Choice grade beef increased 4 percent. This increase occurred in the wholesale-retail segment of the spread. The live-wholesale segment decreased about 1 percent from 1960 to 1961.

The marketing spread for pork rose 2 percent. The increase in the spread was the net result of partially offsetting changes in the two segments of the spread. The wholesale-retail segment increased 11 percent, while the live-wholesale segment decreased 5 percent.

The farm value of lamb declined 13 percent from 1960 to 1961, the third consecutive decrease in the annual average and the lowest since 1946. The sharp decrease in the farm value was accompanied by a 5 percent decrease in the retail price to 65.9 cents per pound in 1961, the lowest since 1956. The farm-retail spread increased 2 percent.

The farmer's share of the consumer's dollar spent for lamb has declined steadily since 1958. It was 48 cents in 1961, the lowest since 1935.

Special prices are more important for beef and lamb than for pork or veal. The effect of specials on suppliers of retail firms and on producers depends on a number of factors not all of which are known. Certainly the publicity and the low prices have some beneficial effect on sales of meats at the time of the special. The net effect on average prices and returns to producers depends on the following factors:

1. The extent to which retailers can increase their bargaining power by choosing among products and times for specials. This depends on the level of consumer demand for the product and general supply conditions. The level of consumer demand determines the flexibility the retailer has in handling the product. Some commodities like beef must be carried in quantity at all times, while only very small quantities of lamb are carried regularly. Thus, the retailer may be able to go into the lamb market for volume purchases only when he feels prices are favorable. As a result a very high proportion of lamb is sold during special sales. Retailers probably are able to improve their bargaining position relative to packers to a much greater extent in the wholesale lamb market than in the wholesale beef market.
2. The extent to which large volumes moved under special sales reduce sales in other time periods. Whether or not steady prices somewhere in between higher regular prices and lower special prices would result in as much or more total movement is not known.
3. The effect on sales of competing products. When beef is featured, it is important to know what happens to lamb prices and volumes and vice versa.
4. The extent to which fluctuations in quantities demanded are felt in the wholesale market and disrupt normal market flows.

In a study of the lamb industry, firms cited favorable purchase prices as the most important factor governing choice of product to special and the timing of specials. Variety and systematic cycling of features among meats were given by almost as many firms. Plentiful supply was the third reason mentioned.

Some retailers try to anticipate their competitors' specials and avoid the same items by observing wholesale prices which may indicate when other firms are buying a product for a special.

Specializing by a firm may lower the composite retail carcass price by as much as 10 cents, say from 65 cents to 55 cents per pound during a given week. Some firms special three to six cuts with one or two feature items. Others may special most of the cuts normally carried in stock. Most firms advertise beef at least two or three times monthly. Sometimes it may be featured every week for several weeks. Specializing occurs more frequently during declining than rising beef prices.

#### Dairy Products

The farm-retail spread for dairy products rose again in 1961, as it has each year since 1950. Spreads increased for all major dairy products except ice cream. Higher support prices for butter and cheese resulted in higher farm values, but prices rose by much greater amounts at retail.



Fluid milk.--The annual average retail price (based mainly on single quart prices of homogenized milk) was 25.4 cents in 1961 compared with 25.3 cents in 1960. The marketing spread also rose by 0.1 cent to 14.5 cents in 1961. For the third consecutive year, the farmer's share of the retail price was 43 percent.

Since 1957, the average annual retail price per quart has increased 1.2 cents. During this period, payments to farmers for an equivalent quantity of milk varied 0.2 cent and was the same in 1961 as in 1957. The marketing spread increased with the retail price, and in 1961 it was 1.2 cents higher than in 1957. Rising labor costs accounted for about 90 percent of the increase in the spread.

Consumers have made various adjustments to moderate the effects of increasing retail prices for milk. Thus, they are shifting from home delivery to store purchases, to standard milk from premium milk, and from single quarts to multiple-quart containers.

Butter.--Retail prices, marketing margins, and farm values for butter were all higher in 1961 than in 1960. The average annual retail price increased 1.4 cents to 76.3 cents, the farm value increased 0.6 cent to 53.8 cents, and the marketing margin went up 0.8 cent to 22.5 cents. The farmer's share of the retail price was 71 percent in 1961, the same as in 1960. During the 1950's, it ranged from 69 percent to 74 percent.

Cheese.--The market for cheese was favorable at the end of 1960. Retail prices were up. Wholesale prices had been above Government purchase prices for 17 months and Federal purchases were nominal. Prices producers received for milk for manufacturing during October-December 1960 were about 50 cents per 100 pounds above support levels. On January 27, 1961, however, the prices of American Cheddar cheese on the Wisconsin Cheese Exchange declined 4.0 cents a pound. This drop forecast the situation for the remainder of 1961. Production of cheese increased more than enough to supply the increased commercial demand -- in some months of 1961 production was 25 percent larger than a year earlier. Before the end of March the wholesale price was down to the level at which the Federal Government purchased American Cheddar cheese.

During the period of the strong market for cheese (late 1960 and early 1961), retail and wholesale prices rose more than farm prices. The marketing margin increased and it did not decrease when prices dropped later. This movement is reflected in changes in the annual average retail price, marketing margin, and farm value for American cheese from 1960 to 1961. The average retail price per pound rose 3.7 cents to 64.3 cents in 1961, while the farm value rose 0.4 cent, and the marketing margin increased 3.3 cents. The farmer's share of the retail price dropped to 47 percent in 1961, down 2 percentage points from 1960.

Ice cream.--Retail prices, farm values, and marketing margins for ice cream have changed little in recent years. The retail price per half gallon averaged 86.4 cents in 1961, down 0.4 cent from the previous year; the farm value increased 0.6 cent, and the marketing margin decreased 1.0 cent. The retail price of ice cream has decreased 3.2 cents per quart since 1952. At the same time the farm value decreased 3.8 cents, so the marketing margin has risen 0.6 cent.

#### Cotton

The spread between retail prices of cotton products and the farm value of the lint cotton used in their manufacture in 1961 averaged about the same as in 1960,

about 4.5 percent greater than in 1958, and greater than for any other year since 1948. The farm value of the cotton used in 25 representative items of cotton clothing and house furnishings averaged about 31 cents in 1961, slightly higher than in 1960, but 3.2 percent lower than in 1958 and about 24 percent lower than the record high in 1951. Retail prices of the equivalent of 1 pound of cotton increased to \$2.18 in 1961, about 3 percent above that in 1959, and about 3 percent below the 1951 peak. The farmer's share of the consumer's dollar averaged about 14 percent in 1961, the same as in 1960, and compared with the high of 18 percent in 1951 and 1952 (fig. 11).

Cotton accounted for a larger proportion of the retail prices of house furnishings than of clothing. The farmer's share of the consumer's dollar for house furnishings averaged 22 percent in 1961, slightly higher than in 1960, compared with an average of 11 percent for clothing in 1961, the same as in 1960. The farmer's share decreased from 37 percent in 1955 to 31 percent in 1961 for sheets, from 19 percent in 1951 to 14 percent in 1961 for work shirts, and from 8 percent in 1956 to 6 percent in 1961 for business shirts.

Average prices received by mills for unfinished cotton cloth, costs to mills of the raw cotton used, and mill margins each decreased in the year ended July 1961. Mill margins for manufacturers of 20 selected constructions averaged about 44 percent of the value of the unfinished cloth during the year ended with July 1961, compared with almost 48 percent for the year ended with July 1960 when they were wider than for any other recent year.

Charges for ginning and baling cotton continued to increase and in the year ended with July 1961 they averaged \$15.42 per 500-pound bale. The proportion of

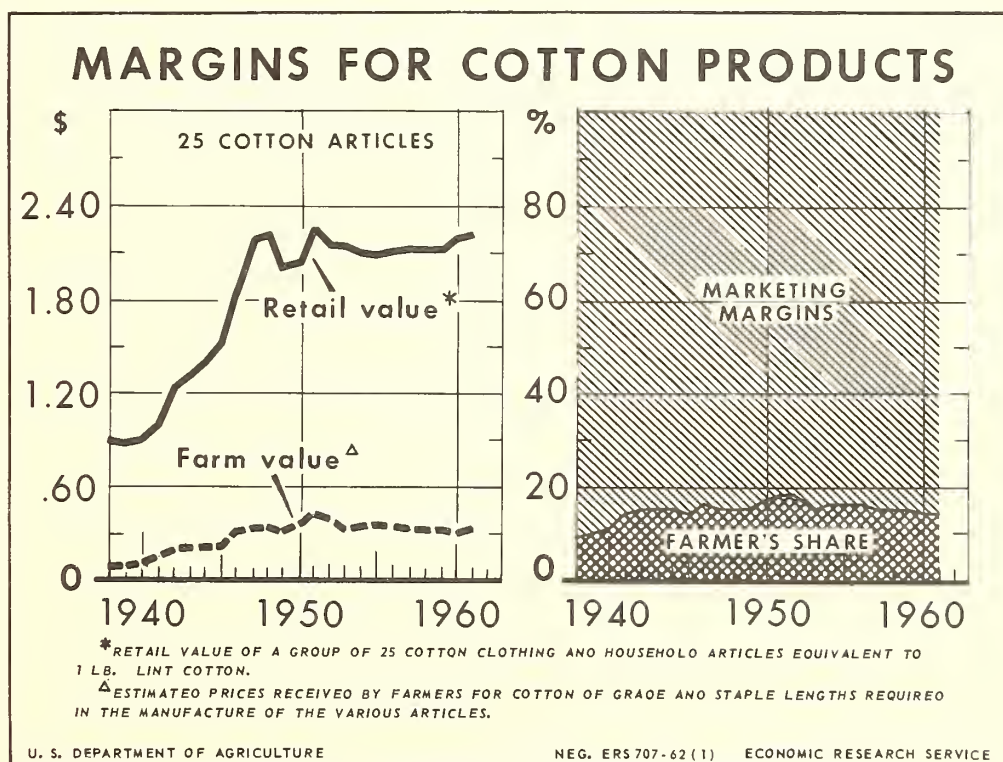


Figure 11

the farm value of the cotton accounted for by ginning and baling charges increased from 6 percent for the 1947 crop to more than 10 percent for the 1960 crop. Average monthly charges per bale for storing cotton increased from 30 cents in 1947-48 to 51 cents in 1960-61.

### Tobacco

The retail price for cigarettes changed little from 1960 to 1961. Retail prices of regular size, popular brand cigarettes were 27.2 cents per package in 1960-61 compared with 27.1 cents the year before (fig. 12). The farm-retail spread excluding taxes declined a tenth of a cent to 11.1 cents in 1960-61. The farm value of tobacco used in regular cigarettes increased 0.2 cent.

The retail cost of the 4 major products made from 1 pound of leaf tobacco was \$3.99 for the year ended June 30, 1961, compared with \$3.97 for the previous year. The farm value of the leaf tobacco used in these products was 60 cents per pound in 1959-61 compared with 58 cents in 1959-60.

The grower's share of the consumer's dollar for cigarettes has declined in the last decade. Several developments have been responsible for this. The quantity of tobacco required to produce 1,000 cigarettes is less today than in 1950. The cigarettes sold in 1950 had a circumference of about 26 millimeters compared with about 25 millimeters in 1960. The volume of the cigarette has also been reduced in some instances by the length of the filter. Although most filter cigarettes sold are 85 millimeters long as opposed to the 70 millimeter length of the standard nonfilter cigarettes, some have filters exceeding 15 millimeters, thus reducing the length of the tobacco cylinder in the cigarette. The other reason for a reduction in the quantity of tobacco required to produce a given number of cigarettes is the more complete use of the tobacco leaf. When tobacco is converted into cigarettes, a part of the stem and fine particles of tobacco are removed or lost in the processing. The tobacco actually going into the cigarettes in 1950 weighed about two-thirds as much as the tobacco sold by the grower. Today, through the use of more stems and of a new development, the tobacco sheet, more of the tobacco is recovered for use in the cigarette.



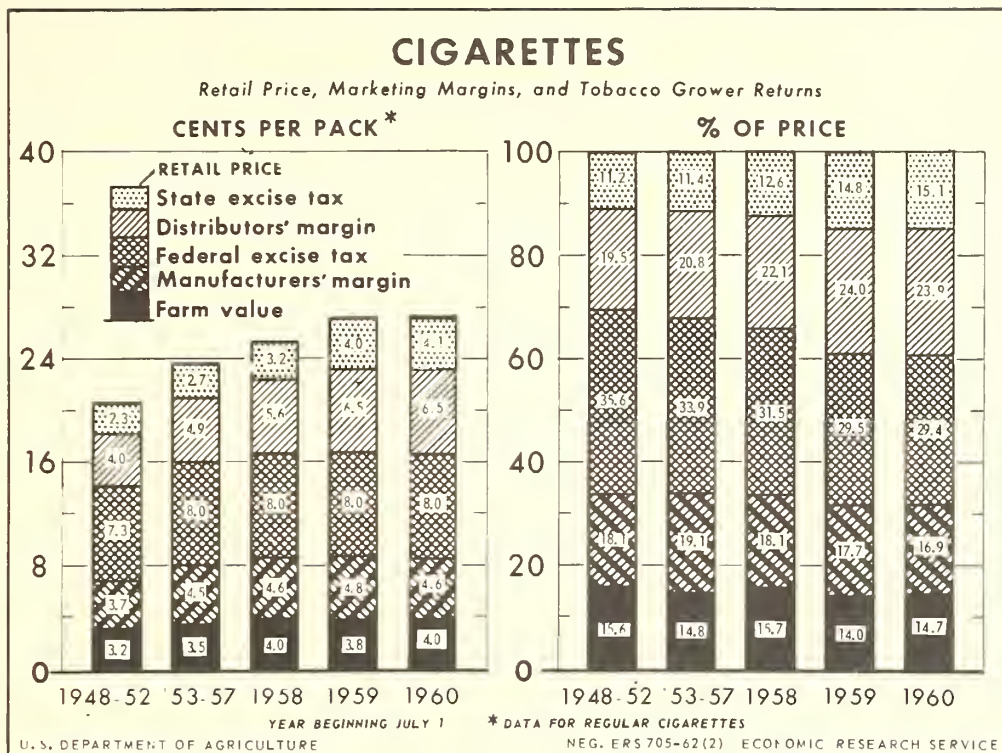


Figure 12

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FEBRUARY 1961 - FEBRUARY 1962

Radio presentations

Food Is A Bargain (Two stories for the Farm and Home audiences).  
Farmer's Share of the Food Dollar.

These tapes for radio were released on:

Agriculture USA -- Fifteen-minute weekly program for 11 clear channel stations  
and 27 others.

Agri-Tape -- Weekly series of short farm features released to about 400 stations.

Booklets and leaflets

Food Is A Bargain flyer (highlights of the Food Is A Bargain story; approximately  
1 1/2 million copies distributed by food stores in the Washington, D. C.  
area).

Film strip and slide series

Food Is A Bargain.

Television

Two television packets prepared on Food Is A Bargain theme for distribution  
to the Farm and Home audiences.

Consumer price stories

Your Grocery Bill Includes Many Things.  
The Price of Beef.  
Food Is A Bargain.  
The Value of the Food We Eat.

These stories were distributed directly to newspaper food and home editors.

Exhibits

The Meat Miracle -- The story of the decreasing real cost of meat and how much  
the farmer gets of the money we spend on meat.



